

HOUSE BILL REPORT

SB 5857

As Passed House:

April 5, 2005

Title: An act relating to the business and occupation taxation of nonprofit community health centers.

Brief Description: Authorizing a business and occupation tax deduction for certain nonprofit community health centers.

Sponsors: By Senators Prentice and Kohl-Welles.

Brief History:

Committee Activity:

Finance: 3/22/05, 3/30/05 [DP].

Floor Activity:

Passed House: 4/5/05, 94-0.

Brief Summary of Bill

- Exempts nonprofit community health centers from business and occupation tax on payments received for health care services covered under medicare, medical assistance, children's health, or the basic health plan.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 9 members: Representatives McIntire, Chair; Hunter, Vice Chair; Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Conway, Ericksen, Hasegawa and Santos.

Staff: Rick Peterson (786-7150).

Background:

Washington's major business tax is the business and occupation (B&O) tax. This tax is imposed on the gross receipts of business activities conducted within the state. Nonprofit organizations pay B&O tax unless specifically exempted by statute. Exemption from federal income tax does not automatically provide exemption from state taxes.

Nonprofit health and social welfare organizations are allowed a deduction under the B&O tax for payments from governmental entities for health or social services. Examples include: health care; family and drug counseling; services for the sick, elderly, and disabled; day care; vocational training and employment services; legal services for the indigent; and services for

low-income homeowners and renters. This exemption also applies to Medicaid and Medicare payments. The B&O tax deduction by health or social welfare organizations is provided only for payments made directly by federal, state, or local governments.

In addition, nonprofit hospitals and public hospitals are allowed a deduction under the B&O tax for payments for health care services covered under medicare, medicaid, children's health, or the basic health plan. Payments made directly from governments or indirectly by governments through managed care organizations are eligible for this deduction. This deduction does not apply to patient co-payments or deductibles.

Summary of Bill:

The tax deduction available to nonprofit hospitals and public hospitals for amounts received as compensation for health care services covered under medicare, medical assistance, children's health, or the basic health plan is extended to nonprofit community health centers and networks of nonprofit community health centers.

"Community health center" means a federally qualified health center as defined under federal law in effect on the effective date of this act.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect on August 1, 2005.

Testimony For: The deduction from B&O tax for nonprofit health and social welfare organizations has been in the law for 20 years. In 2001, the Department of Revenue started denying the deduction for payments paid through managed care. A bill was run to continue the deduction for hospitals but it was narrowly drawn and did not include community health centers. None of this revenue has been collected. This bill is simply a clean up of an ambiguity in the law.

Testimony Against: None.

Persons Testifying: Len McComb, Community Health Network of Washington.

Persons Signed In To Testify But Not Testifying: None.